

A GUIDE TO

**PRESIDENT
TRUMP'S
FISCAL
POLICY**



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TRUMP'S FISCAL PLANS

FOREWORD

It's fair to say that investors reacted positively to the election of Donald Trump as President of the United States. His pro-business pledges during the course of the 2016 campaign boosted the prospects of significant stimulus spending.

But less than 100 days into his presidency, questions are now being asked about whether President Trump has the ability to make good on his fiscal pledges.

The purpose of this eBook is to bring traders up to speed with the challenges facing the Trump administration - and how they could affect the US dollar.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

THE CURRENT SITUATION

NOT ALL PLAIN SAILING

Since President Trump's inauguration in January 2017, there seems to have been an endless stream of crises and controversies surrounding the White House. The goal of this eBook is to identify how these events can impact the price of the US dollar.

But before we go any further, it's important for us to identify why being familiar with Trump's presidency is important for Forex traders.

The answer is actually quite simple. At the start of 2017, the US economy was buoyant and enjoying strong growth. This was reflected by record month-on-month jobs growth during the Obama administration, along with the Federal Reserve opting to increase its base interest rate to 0.75% for the first time in almost a decade.

Even though the US was set to change course (in terms of fiscal

policy) with the incoming Trump administration, opinions on the resilience of the US economy didn't change. In fact, Trump's election saw a new wave of optimism cover foreign investors. They moved away from global bonds (which lost approximately \$1 trillion in value after Trump's election) in favour of private equities. Major businesses - such as Fiat Chrysler and General Motors - also committed to investing billions of dollars within the US.

This continued confidence in the US economy was reflected in early March 2017, when the Federal Reserve again chose to raise its interest rate - this time to 1%.

However, not everything has been plain sailing. The White House has been under constant scrutiny about its ability to legislate and govern effectively - and with moral authority. The result, as of April 2017, has seen investors enter a 'risk off' mode when it comes to US equities. The dollar has also experienced a bout of moderate weakness (US Dollar Index hit 98.98 on 27th March 2017).

The following pages explore why this has happened while considering longer-term implications.

THE RUSSIA INVESTIGATIONS

TRUST HAS BECOME AN ISSUE

The most troubling issue for the Trump White House are the parallel investigations into Russian collusion.

If you're unfamiliar with the story, there are currently three bodies investigating possible co-ordination between the Trump 2016 campaign and Russia in order to influence the outcome of the US Presidential election. These investigations are being carried out by the FBI, House Intelligence Committee and Senate Intelligence Committee.

At the moment, these bodies are just investigating allegations. But the Trump White House has been on the defensive when it comes to explaining some of its senior staff's connections to Russia. There have been two high-profile cases of this. General Mike Flynn, who was President Trump's National Security Advisor, was forced to resign after misleading Vice President Pence about a meeting he had with the Russian ambassador, Sergey Kislyak, in December

2016. Secondly, Jeff Sessions, Trump's appointed Attorney General, falsely stated he had not met with representatives of Russia during 2016. It was subsequently revealed he met the Russian ambassador twice during that time.

Again, it's important to emphasise that these circumstances are not indicative of wrongdoing. It's just that the Trump White House is now battling a corrosive public perception, which is impacting its popularity and political leverage.

Something which has contributed to this perception are the tweets from President Trump himself. He has made a series of seemingly unfounded claims about the Obama administration illegally wire-tapping his communications. At the time of writing, Trump's approval rate is 38% (Gallup poll on 1st April 2017).



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THE REPUBLICAN PARTY

A MAJORITY DOES NOT MEAN UNITY

President Trump's low approval ratings are not helping him unify a fractured Republican Party.

Proof of this was seen in March 2017, when despite having a majority in both the House and Senate, Republicans failed to secure enough congressional support to put the American Health Care Act (AHCA) - also known as Trumpcare - to a vote. Remember, ACHA was the replacement plan for Obamacare, which President Trump pledged to repeal and replace during his 2016 campaign.

So why did the legislation fail to acquire enough support to put it to a vote? In short, it's because of the competing factions within the Republican Party. Some deemed AHCA 'Obamacare-lite' - failing to completely remove government from health care provision. One Republican Party faction which followed this thinking was 'The Freedom Caucus'. This is a group of traditional conservative congressman within the Republican Party that advocate for

reducing the size of government. It's this belief that saw them oppose Trumpcare - and securing its fate as a failed bill.

The result of this failure to pass the Trump administration's first major legislative proposal is what has caused investors to lose confidence in the broader fiscal agenda. This is something Forex traders need to be aware of. Flailing political support from the public and his own party, this early in his presidency, makes it much more difficult to progress other fiscal plans.

THE KNOCK-ON EFFECT

MORE CHALLENGES ARE AHEAD

So what's the tangible effect of President Trump's low approval rating and fractured party? If we look at the financial markets, we can see that the Dow Jones Industrial Index experienced its longest losing run since 2011 after AHCA failed. The US dollar also hit a four-month low against its major peers at the same time.

In short, serious doubts have been sown about President Trump's ability to turn his ideas into reality.

Next on the agenda is tax reform. President Trump wants to dramatically reduce corporate taxes to rebuild US manufacturing. This should acquire the full support of his party, as a low tax economy is an ideological vision they all share.

But there are other controversial fiscal plans on the horizon for the White House. One such plan is the construction of a wall on the southern border to Mexico. The White House has floated the

idea of imposing a border tax on imports from Mexico to pay back the money the US will use to start building. However, this project has the potential to add billions of dollars to the national debt - something traditional conservatives are likely to oppose.

In summary, Forex traders should be attuned to the developments around President Trump and his administration, as the progress of his fiscal agenda will have an impact on the US dollar.



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